FPI BOARD OF DIRECTORS MEETING
April 20, 2022

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on April 20, 2022, via teleconference.

IN ATTENDANCE:

Donald R. Elliott, Vice Chairman
Lee Lofthus, Member
Dee Reardon, Member
Audrey Roberts, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Catricia Howard, Acting Deputy Director, Federal Bureau of Prisons
Patrick T. O'Connor, Chief Executive Officer, FPI
Greg Burke, Senior Deputy Assistant Director, FPI
Sean Marler, Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Edward Porras, Chief Financial Officer, FPI
Jim Brodie, Corporate Accountant, FPI
Valery Logan, Executive Assistant, FPI

Mr. Elliott chaired the meeting.

The Director's comments were provided by Ms. Howard, on behalf of the Director who was on travel status in the Southeast Region. She provided an update on inmate population, staffing numbers, and the vaccination rate. On behalf of the Director, Ms. Howard thanked FPI and the Board of Directors.

I. Chief Executive Officer Update

Mr. O'Connor provided the Board with an update. The first six months of the year were dominated by COVID and the national lockdown, which were devastating to operations in January and February. This caused shipments to be reduced by $19 million. We also continue to face non-COVID challenges. Supply chain shortages have affected all groups, especially fleet and print factories due to the chip and paper shortages. Inflation has affected all groups. Another challenge we are facing is labor shortages at camps and some low security instiuttions. FPI's inmate waitlists have decreased dramitcally due to releases to residential reentry centers (RRCs) and home confinements. Something we hope will help us is that while the Reentry Services Division has not completed all the needs assessments under the First Step Act, the vast majority of them reflect the need for work experience, which FPI can fulfill.

Mr. O'Connor provided updates on new potential business opportunites including: portable sterilization equipment at Lexington and Phoenix; N95 / N99 face mask production at Lexington; plant LED lighting at Lexington; eyeglass frames at Fairton; and expanding hanger sorting at Tucson.

Mr. O'Connor provided an update on his factory visits since the last Board meeting, which include visits to Pekin, Milan, Terre Haute, Manchester, and customer visits at Fairton and Lexington. He also attended the annual National Correctional Industries Association (NCIA) conference in Louisville. Five FPI staff were recognized at the NCIA conference and received awards.

Mr. O'Connor provided the Board with a review of FPI's key performance indicators (KPIs):

KPI 1.0, Mission: The number of full-time inmate workers is lower than FPI's fiscal year (FY) 2022 target. It has increased each week. We are also below our goal on the percentage of inmate workers within three years of release because we lost so many inmate workers to RRCs and home confinement.

KPI 2.0, Financial Perspective: We are behind our year-to-date (YTD) target for sales. We did not expect the degree of disruption caused by the omicron variant. Our gross margins are looking good due to factories running efficiently.

KPI 3.0, Customer Perspective: FPI's on-time delivery rate is lower than our target rate. Our backlog is growing, in part due to new orders.

KPI 4.0, Internal Perspective: FPI's defect rate continues to drop. Inventory turns are slightly better. Lost hours is well below our target. However, this number does not include the national lock down. It includes the lost hours for normal correctional issues such as fog.

KPI 5.0, Learning and Growth Perspective: Open staff vacancies are higher than our target, which is based on not making money. As we stabilize, we will start bring on more staff. Our time to fill is well under the U.S. Office of Personnel Management's (OPM) standard of 80 days. We are doing well with staff training. To date, we have 388 staff trained, exceeding our target of 243, which does not include annual training. The recordable injury rate is still astonishingly low. We are doing a great job of keeping the workspace safe.

II. Chief Financial Officer's Report

Mr. Porras provided an update on FPI's financials.

FPI sales through March were below plan by 21% at $195 million. This is due to lower than expected sales by the Fleet Business Group (FBG) and the Clothing and Textiles Group (CTG). Several factors are still affecting our sales: some factories are still affected by COVID restrictions; we continue to face material shortages due to shipment delays from vendors; and there are supply chain issues in the acquisition of some materials. Overall, YTD sales of are well above sales for this time last year. We are expecting sales to increase as we are coming out of the pandemic status, and locations start to resume normal operations and work to eliminate customer backlogs.

YTD group earnings before general and administrative expenses (G&A) were below plan by 48% at 11.3 million. G&A was below plan but in line with lower sales volume. Other income is below plan by 15% at 5.3 million. Investment income is in line with plan, however, it is below FY21 results and will continue to be low given low interest rates. We have a total net loss of $9 million. This is higher than our expected loss of $4 million. This increase in loss is due to COVID restrictions and several vendors that have been unable to provide materials on time, which resulted in delays in production.

The YTD group earnings through March before G&A was lower than expected due to lower sales results. The FBG, Office Furniture Group (OFG), and Recycling Business Group (RBG) made the majority of these earnings. Some of the earnings are due to delaying planned expenses related to non-capitalized purchases of machinery and equipment and roof repairs that were planned.

From the end of FY21 to March 31 our cash has decreased by $40 million. The decrease in cash is primarily attributable to a $24.9 million decrease in deferred revenue (advance payable). The deferred revenue is attributable to customer advance payables on hand primarily for the retrofitting of vehicles for the Department of Homeland Security. It can also be attributed to a $9 million net loss (YTD) and a $3.6 million decrease in accounts payable.

We are monitoring our expenses and the way we disburse our funds to ensure we manage cash based on our risk tolerance. The monitoring has led to a reduction in accounts payable from FY21 to FY22, with only essential materials and supplies being purchased.

Inventory seems to have leveled off over the past few months with slower incoming of materials and shutdowns slowing the outgoing of shipments. CTG, OFG, and FBG have inventory nearly double planned levels but are supported with the customer backlog of orders. Backlog has remained fairly stable from the end of FY21 to the end of the second quarter.

Our implementation of SAP S4/HANA and disruptions related to COVID kept our sales down for the first months of the fiscal year; in December our sales went up to almost hit our target for the year; then the COVID omicron variant surfaced in January and along with the national lockdown, our sales hit the lowest levels. Our sales are starting to recover - during March we saw an increase in sales of almost $40 million. We are expecting to reach our targets for the year in the next six months.

Mr. Elliott asked what keeps the Financial Management Branch up at night. Mr. Porras responded that we need to monitor and analyze how we manage our costs.

III. Action Items/Legal Updates

The Board unanimously approved the draft meeting minutes for the February 16, 2022 Board meeting. The next meeting is scheduled for June 15, 2022.

The meeting adjourned.

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Patrick T. O’Connor, Chief Executive Officer